

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Freeland Community School District	County Saginaw
Fiscal Year End June 30, 2006	Opinion Date July 19, 2006	Date Audit Report Submitted to State <b>AUGUST 24, 2006</b>	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

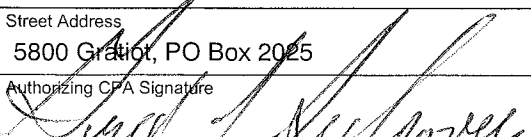
YES NO

☒ ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 989 799-9580	
Street Address 5800 Gratiot, PO Box 2025		City Saginaw	State MI
Authorizing CPA Signature 		Printed Name Gerald J. Deslover	Zip 48605
		License Number 1101007126	

Freeland Community School District  
Freeland, Michigan

Financial Statements

For the Year Ended June 30, 2006

# **FREELAND COMMUNITY SCHOOL DISTRICT**

**JUNE 30, 2006**

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## **ADMINISTRATION**

SUPERINTENDENT

ALLEN B. VEENKANT

## **BOARD OF EDUCATION**

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# FREELAND COMMUNITY SCHOOL DISTRICT

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# REHMANN ROBSON

*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT

July 19, 2006

To the Board of Education  
Freeland Community School District  
Freeland, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Freeland Community School District**, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the **Freeland Community School District**, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2006, on our consideration of the **Freeland Community School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ***Freeland Community School District's*** basic financial statements. The combining and individual fund financial statements and schedules and the schedule of outstanding bonded indebtedness listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **MANAGEMENT'S DISCUSSION and ANALYSIS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the annual financial report presents management's discussion and analysis of Freeland Community School District's (hereon referred to as "the District") performance during the fiscal year ending June 30, 2006. Please read this along with the financial statements of the District, which immediately follow this section.

The financial report is presented in the format required by the Governmental Accounting Standards Board (GASB) in their Statement Number 34. This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Freeland Community School District financially as a whole.

### **Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the June 30, 2006, fiscal year by \$11,942,239 (net assets). Of this amount, \$4,415,344 (unrestricted net assets) may be used to meet the government's ongoing obligations for District programs.
- The General Fund received \$12,879,473 in revenues and had \$13,425,486 in expenditures. The General Fund's fund balance decreased to \$4,093,349 from \$4,639,362.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$4,084,890 or 30% of total General Fund expenditures. The District has designated \$3,966,012 of this money for future projects and expenditures.

### **Annual Report**

The annual report consists of our Management's Discussion and Analysis, a series of financial statements, notes to those statements, and supplemental information. The financial statements (government-wide financial statements) provide information about the activities of the District as a whole. There are two District-wide statements: The Statement of Net Assets and the Statement of Activities. They present a year-end cumulative view and a longer-term view of the District's finances. All funds and capital assets are combined. The Fund Financial Statements (governmental fund statements) provide more detail showing the year's activity by fund. They also show the amount available to finance future programs.

The fund level statements are reported on a modified accrual basis. Only those assets that are "*measurable*" and "*currently available*" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The two statements, when analyzed together help the reader determine whether the School Districts' financial position has improved or deteriorated because of the year's activities. However, the School District's goal is to provide services to our students, not to generate profits. One must consider many other non-financial factors, such as quality of the education, and the safety of the schools, to assess the overall health of the School District.



## **Government-wide Financial Statements**

The Government-wide Financial Statements appear first in the financial statements. They present information on the District as a whole. They show net assets and a statement of activities for the year. These statements include all assets and liabilities using the full accrual basis of accounting, similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account.

Net assets, the difference between assets and liabilities, are one way of measuring the financial health of the District. In the statement of activities, the revenues less the expenses result in an increase or decrease in the net assets. Increases or decreases in net assets, over time, affect the financial health of the District. When analyzed together, the two statements help the reader determine whether the District is financially stronger or weaker as a result of the year's activities.

The statement of activities covers all of the District's services, including instruction, supporting services, food service, athletics, and community services. Property taxes, unrestricted State Aid, and State and Federal grants finance most of these activities. The government-wide financial statements can be found on pages 11-12 of this report.

## **Fund Financial Statements**

The Fund Financial Statements focus on individual parts of the District, by reporting the District's operation in more detail than the district-wide statements provide. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives (ie: Food Service and Athletics). Many of the other funds are created to help control and manage money for a particular purpose, or to meet legal responsibilities for certain taxes, grants, and other money. The governmental funds of the District focus on showing how money flows into and out of funds, and the balances left at year-end. They provide a detailed, short-term view of the operations and services of the District. An accounting method called "modified accrual accounting" is used in fund accounting. This method measures cash and all other financial assets that can readily be converted to cash.

The fund statements are formatted to comply with the legal requirement of the Michigan Department of Education's Public School Accounting Manual. In the State of Michigan, the District's major instructional and instructional support activities are reported in their relevant funds. The funds used by the District include General Fund, Special Revenue Funds for food service and athletic activities, Debt Service Funds for bonded debt, and Capital Projects. The governmental fund financial statements can be found on pages 13-17 of this report.

### **Agency and Trust Accounts**

Freeland Community School District is the trustee, or fiduciary, for its student activity and scholarship funds established for the benefit of our students. These fiduciary activities are reported in separate statements of fiduciary net assets. They are excluded from the other financial statements because the District may not use the assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The fiduciary fund financial statements can be found on pages 18-19 of this report.

The District has added the private purpose trust funds to the financial statements for the 2005-2006 school year. These funds consist of the Cam Bowman Scholarship Fund, Thomas P. Orr Scholarship fund, Sally A. George Scholarship Fund and the Miller Empey Room Museum account. They were previously recorded in the Agency Funds.

### **Notes to the financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-33 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 34-42 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$11,942,239 at the end of the June 30, 2006 fiscal year. The following schedule provides a summary of the school district's net assets as of June 30, 2006, and 2005:

### Summary of Net Assets

	<u>2004-2005</u>	<u>2005-2006</u>
<b>Assets</b>		
Current Assets	\$ 7,026,718	\$ 6,320,497
Capital Assets, net	<u>20,731,317</u>	<u>20,017,583</u>
<b>Total assets</b>	<u><b>27,758,035</b></u>	<u><b>26,338,080</b></u>
<b>Liabilities</b>		
Current Liabilities	2,110,998	1,838,278
Long-term Liabilities	<u>13,185,413</u>	<u>12,557,563</u>
<b>Total Liabilities</b>	<u><b>15,296,411</b></u>	<u><b>14,395,841</b></u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	7,092,961	7,052,314
Restricted for Debt Service	442,835	474,581
Unrestricted	<u>4,925,828</u>	<u>4,415,344</u>
<b>Total Net Assets</b>	<u><b>\$ 12,461,624</b></u>	<u><b>\$ 11,942,239</b></u>

The largest portion of the District's assets (76%) reflects its investment in capital assets (ie., land, buildings, vehicles, and equipment), less accumulated depreciation. The District uses these capital assets to provide services to the students; consequently, these assets are not available for future spending. Twenty four percent of the District's governmental assets are held in cash and investments. The largest portion is in the general fund, to fund the yearly operations of the district. The District's investment in its capital assets is reported net of related debt; it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Long-term liabilities include general obligation bonds used to finance acquisition of capital assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported to show legal constraints which limit use of some of the assets. Debt covenants and legislation limit the District's ability to use those net assets for day-to-day operations.

The net assets represent the accumulated results of all past years' activities. This amount will be affected by the year-to-year combined operations. The summary of the years' activity for the District as a whole are reported below. At the end of the current fiscal year, the District was able to report positive balances in all three categories of net assets.

The District's net assets decreased by \$519,385 during the 2005-2006 school year, and decreased by \$394,260 during the 2004-2005 year. This decrease is due to accumulated depreciation, and the reclassification of land in the capital assets. The 2004-2005 school year reflects the first year of accumulated depreciation for the Middle School building.

### Statement of Net Assets from Operating Results

	<u>2004-2005</u>	<u>2005-2006</u>
<b>Revenue</b>		
Program revenue		
Charges for services	\$ 345,185	\$ 388,278
Grants and categoricals	667,666	739,779
General revenue		
Property taxes	2,423,636	2,514,033
State foundation allowance	10,599,290	11,115,028
Other	207,471	237,343
<b>Total Revenue</b>	<b><u>14,243,248</u></b>	<b><u>14,994,461</u></b>
<b>Function/Program expenses</b>		
Instruction	7,551,011	8,234,711
Support services	4,235,606	4,786,879
Food Service	397,432	419,287
Athletics	387,392	453,527
Community Service	18,779	23,687
Interest on long-term debt	1,173,269	617,588
Unallocated depreciation	874,019	978,167
<b>Total Expenses</b>	<b><u>14,637,508</u></b>	<b><u>15,513,846</u></b>
<b>Increase (decrease) in Net Assets</b>	<b><u>\$ (394,260)</u></b>	<b><u>\$ (519,385)</u></b>

The change in net assets differs from the change in fund balance because of different accounting requirements. A reconciliation appears later in the financial statements.

### Summary of Fund Financial Statements

As noted earlier, the District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it, and may provide more insight into the District's overall financial health.

The combined Governmental fund balance of \$5,131,101 decreased by \$446,004 from the previous year. The general fund, which is the primary operating fund, decreased by \$546,013. The decrease is mostly attributable to the increase in health care, retirement and wage increases.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the General Fund, Food Service Fund and Athletic Fund to demonstrate compliance with those budgets.

The Special Revenue fund balance, which includes Athletic and Food Service, had the following changes: The fund balance in Food Service at June 30, 2006, was \$45,020. The Athletic Fund balance was \$65,244. This fund balance accounts for hockey deposits, team fundraising deposits and the athletic equity.

The Debt fund balance at June 30, 2006 was \$474,581; this increased by \$31,746. This is due to the prior period adjustment that was made in note IV. F. of the financial statements to adjust the taxes.

The fund balance of the District's capital project funds increased by \$30,871 during the current fiscal year. This is primarily attributable to several projects being planned but not yet started in the sinking fund.

### **General Fund Budget**

By law, the District must establish an original budget in June, with a beginning fiscal date of July 1, for the General Fund and Special Revenue Funds. Budgets were revised twice this year. Approximately eighty seven percent of the District's general fund revenue comes from the State through a Foundation Allowance and Categoricals (specific program grants). The State Foundation Allowance is based on student enrollment and an amount per pupil designated by the State. Therefore, the budget is primarily based on an estimate of the student population including the following September count, the per-pupil amount set by the State, and an estimate of the categoricalals that will be approved by the State.

State law requires that budgets be amended to ensure that expenditures do not exceed appropriations. Original and final budgets, as well as actual amounts paid and received, are included in the basic financial statements.

The General Fund received \$12,879,473 in revenues and had \$13,425,486 in expenditures. The General Fund's fund balance decreased to \$4,093,349 from \$4,639,362.

At the end of the current fiscal year, unreserved fund balance for the General Fund was \$4,084,890 or 30% of total General Fund expenditures. \$3,966,012 of this money is designated for future projects and expenditures.

The actual General Fund expenditures were within 99% of the final budget amounts. The increase in the actual General Fund revenues from the final budgeted amounts is due to a increase in projected local sources due to additional investment income and building rental revenue. The increase in State sources is due to changes in property values used when adjusting the budget.

## **Capital Assets**

As of June 30, 2006, the District had \$20,017,583 in capital assets including land, buildings, buses, vehicles, musical instruments, property and technology.

	<b>Capital Assets (net of depreciation)</b>	
	<b><u>2004-2005</u></b>	<b><u>2005-2006</u></b>
Land	\$ 150,000	\$ 14,500
Buildings	24,705,076	24,825,576
Vehicles	1,143,237	1,236,540
Equipment – Other	<u>4,354,020</u>	<u>4,588,886</u>
Subtotal	30,352,333	30,665,502
Less accumulated dep	<u>(9,621,016)</u>	<u>(10,647,919)</u>
Net Capital Assets	<u>\$ 20,731,317</u>	<u>\$ 20,017,583</u>

The decrease of \$713,734 from 2004-2005 to 2005-2006 is accumulated depreciation. A reclassification of open property to buildings and more than one year of depreciation to catch up this classification change results in additional depreciation.

Additional information of the District's capital assets can be found in note III.C. in the notes to the financial statements.

## **Long-term Debt**

The long-term obligations for the District decreased from \$13,858,500 in 2004-2005 to \$13,186,281 at the end of 2005-2006. The total decrease of \$672,219 included payments of \$673,087 paid on the Government obligation bonds and a \$868 increase on compensated absences.

Additional information on the District's long-term debt can be found in note III. F. in the Notes to Financial Statements.

### **Economic Factors and Next Year's Budget and Rates**

Since most of the District's revenue is derived from the per pupil foundation allowance, student enrollment as reported in the blended count is a key factor in forecasting revenue. Once the final student count is known in late October, State law requires the District to amend the budget if actual revenues will vary significantly from those originally appropriated. Under State law, the District cannot access additional property tax revenue for general operations. The District builds a very conservative budget due to many unknown factors.

The State periodically holds a revenue-estimating conference. Based on the results of the most recent conference, the State estimates funds sufficient to increase the per pupil foundation amount by \$210 per pupil, this will bring the per pupil amount to \$7,085. This is the largest increase in five years. We are very cautiously optimistic. The State budget conference is also projecting distributions of \$23 per pupil in "equity payments". This would raise the minimum per pupil foundation grant to \$7,108 for the 2006-2007 school year. We are anticipating a decrease in the Title I funds for the 2006-2007 school year.

The District will be negotiating a labor contract with the Freeland Education Association; this contract expires on August 15, 2007.

### **Requests for Information**

This financial report is designed to provide a general overview of the District's finances, and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Jodi K. Rokosz, Freeland Community School District, 710 Powley Drive, Freeland, MI 48623-8106.

**FREELAND COMMUNITY SCHOOL DISTRICT**

**BASIC FINANCIAL STATEMENTS**



## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**FREELAND COMMUNITY SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Cash and cash equivalents	\$ 2,809,293
Investments	1,377,134
Receivables	2,126,936
Inventory	7,134
Capital assets not being depreciated	14,500
Capital assets being depreciated, net	<u>20,003,083</u>
<b>Total assets</b>	<u>26,338,080</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,201,736
Unearned revenue	7,824
Long-term debt:	
Due within one year	628,718
Due in more than one year	<u>12,557,563</u>
<b>Total liabilities</b>	<u>14,395,841</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	7,052,314
Restricted for:	
Debt service	474,581
Unrestricted	<u>4,415,344</u>
<b>Total net assets</b>	<u><u>\$ 11,942,239</u></u>

The accompanying notes are an integral part of these financial statements.

**FREELAND COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

<b><u>Functions / Programs</u></b>	<b><u>Expenses</u></b>	<b><u>Program Revenues</u></b>		<b><u>Net (Expense) Revenue</u></b>
		<b><u>Charges for Services</u></b>	<b><u>Operating Grants and Contributions</u></b>	
Governmental activities:				
Instruction	\$ 8,234,711	\$ 1	\$ 493,304	\$ (7,741,406)
Supporting services	4,786,879	-	3,473	(4,783,406)
Food service	419,287	296,378	105,879	(17,030)
Athletics	453,527	91,899	124,565	(237,063)
Community service	23,687	-	-	(23,687)
Interest on long-term debt	617,588	-	12,557	(605,031)
Unallocated depreciation	978,167	-	-	(978,167)
<b>Total</b>	<b>\$ 15,513,846</b>	<b>\$ 388,278</b>	<b>\$ 739,778</b>	<b>(14,385,790)</b>
General revenues:				
Property taxes				2,514,033
Unrestricted state aid				11,115,028
Grants and contributions not restricted to specific programs				89,986
Unrestricted investment earnings				147,358
<b>Total general revenues</b>				<b>13,866,405</b>
 Change in net assets				 (519,385)
 Net assets, beginning of year				 12,461,624
 <b>Net assets, end of year</b>				 <b>\$ 11,942,239</b>

The accompanying notes are an integral part of these financial statements.

## **FUND FINANCIAL STATEMENTS**

# FREELAND COMMUNITY SCHOOL DISTRICT

## BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2006

<u>ASSETS</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Cash and cash equivalents	\$ 1,673,804	\$ 1,135,489	\$ 2,809,293
Investments	1,377,134	-	1,377,134
Due from other funds	89,500	33,530	123,030
Due from other governmental units	2,076,667	50,269	2,126,936
Inventory	-	7,134	7,134
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 5,217,105</u></b>	<b><u>\$ 1,226,422</u></b>	<b><u>\$ 6,443,527</u></b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 84,202	28,624	\$ 112,826
Due to other funds	26,807	96,223	123,030
Salaries payable	587,360	3,361	590,721
Retirement payable	95,975	549	96,524
Accrued expenses	304,032	2,670	306,702
Deferred revenue	25,380	57,243	82,623
<b>TOTAL LIABILITIES</b>	<b><u>1,123,756</u></b>	<b><u>188,670</u></b>	<b><u>1,312,426</u></b>
<b>FUND BALANCES</b>			
Reserved:			
Reserved for inventory	-	7,134	7,134
Reserved for energy conservation projects	8,459	-	8,459
Reserved for debt retirement	-	474,581	474,581
Reserved for capital projects	-	452,907	452,907
Unreserved:			
Designated for subsequent year's expenditures	1,000,000	-	1,000,000
Designated for future executive orders	1,050,000	-	1,050,000
Designated for future terminal pay	221,012	-	221,012
Designated for physical plant repairs and maintenance	700,000	-	700,000
Designated for equipment/replacement	995,000	-	995,000
Undesignated	118,878	-	118,878
Undesignated, reported in nonmajor:			
Special Revenue Funds	-	103,130	103,130
<b>TOTAL FUND BALANCES</b>	<b><u>4,093,349</u></b>	<b><u>1,037,752</u></b>	<b><u>5,131,101</u></b>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 5,217,105</u></b>	<b><u>\$ 1,226,422</u></b>	<b><u>\$ 6,443,527</u></b>

The accompanying notes are an integral part of these financial statements.

**FREELAND COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET  
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF  
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS  
JUNE 30, 2006**

Fund balances - total governmental funds	\$ 5,131,101
------------------------------------------	--------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	30,665,502
Deduct: accumulated depreciation	(10,647,919)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds.

Add: deferred long-term Durant Settlement receivable	74,799
------------------------------------------------------	--------

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable	(12,965,269)
Deduct: accrued interest on bonds payable	(94,963)
Deduct: compensated absences	(221,012)

Net assets of governmental activities	<u><u>\$ 11,942,239</u></u>
---------------------------------------	-----------------------------

The accompanying notes are an integral part of these financial statements.

**FREELAND COMMUNITY SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2006**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Totals</b>
<b>REVENUE</b>			
Local Sources:			
Taxes	\$ 1,060,087	\$ 1,453,946	\$ 2,514,033
Food service	-	296,378	296,378
Athletics	-	216,464	216,464
Transfers from other districts	73,012	-	73,012
Other local revenue	195,316	42,029	237,345
State Sources:			
State school aid, unrestricted	11,115,028	-	11,115,028
Restricted grants	120,491	59,092	179,583
Federal Sources	315,539	87,431	402,970
<b>TOTAL REVENUE</b>	<b>12,879,473</b>	<b>2,155,340</b>	<b>15,034,813</b>
<b>EXPENDITURES</b>			
Education:			
Instruction	7,682,536	-	7,682,536
Supporting services	4,441,100	-	4,441,100
Food service activities	-	412,253	412,253
Athletic activities	-	453,527	453,527
Community services	23,687	-	23,687
Transfers to other districts	495,680	-	495,680
Capital outlay	392,451	280,422	672,873
Debt service:			
Principal repayment	-	673,087	673,087
Interest and fiscal charges	-	626,074	626,074
<b>TOTAL EXPENDITURES</b>	<b>13,035,454</b>	<b>2,445,363</b>	<b>15,480,817</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(155,981)</b>	<b>(290,023)</b>	<b>(446,004)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	390,032	390,032
Transfers (out)	(390,032)	-	(390,032)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(390,032)</b>	<b>390,032</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(546,013)</b>	<b>100,009</b>	<b>(446,004)</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>4,639,362</b>	<b>937,743</b>	<b>5,577,105</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 4,093,349</b>	<b>\$ 1,037,752</b>	<b>\$ 5,131,101</b>

The accompanying notes are an integral part of these financial statements.

**FREELAND COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

Net change in fund balances - total governmental funds	\$ (446,004)
--------------------------------------------------------	--------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	352,767
Deduct: depreciation expense	(1,066,501)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: payments received on long-term Durant Settlement receivable	(40,352)
---------------------------------------------------------------------	----------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	673,087
--------------------------------------------------	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in accrued interest payable on bonds	8,486
Deduct: increase in the accrual for compensated absences	(868)

Change in net assets of governmental activities	<u><u>\$ (519,385)</u></u>
-------------------------------------------------	----------------------------

The accompanying notes are an integral part of these financial statements.



**FREELAND COMMUNITY SCHOOL DISTRICT**

**GENERAL FUND  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL**

**FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>REVENUES</b>				
Local sources	\$ 1,217,447	\$ 1,352,320	\$ 1,328,415	\$ (23,905)
State sources	10,799,733	11,127,626	11,235,519	107,893
Federal sources	276,356	307,223	315,539	8,316
<b>TOTAL REVENUES</b>	<b>12,293,536</b>	<b>12,787,169</b>	<b>12,879,473</b>	<b>92,304</b>
<b>EXPENDITURES</b>				
Instruction	7,827,389	7,706,478	7,682,536	(23,942)
Supporting services	4,347,768	4,480,965	4,441,100	(39,865)
Community services	23,614	24,594	23,687	(907)
Transfers to other districts	453,361	485,276	495,680	10,404
Capital outlay	261,706	402,205	392,451	(9,754)
<b>TOTAL EXPENDITURES</b>	<b>12,913,838</b>	<b>13,099,518</b>	<b>13,035,454</b>	<b>(64,064)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(620,302)</b>	<b>(312,349)</b>	<b>(155,981)</b>	<b>156,368</b>
<b>OTHER FINANCING USES</b>				
Transfers to other funds	(463,923)	(411,228)	(390,032)	(21,196)
<b>NET CHANGE IN FUND BALANCE</b>	<b>(1,084,225)</b>	<b>(723,577)</b>	<b>(546,013)</b>	<b>177,564</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>4,639,362</b>	<b>4,639,362</b>	<b>4,639,362</b>	<b>-</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 3,555,137</b>	<b>\$ 3,915,785</b>	<b>\$ 4,093,349</b>	<b>\$ 177,564</b>

The accompanying notes are an integral part of these financial statements.

**FREELAND COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
JUNE 30, 2006**

	<b>Private Purpose Trust Funds</b>	<b>Agency Funds</b>
	<u>                    </u>	<u>                    </u>
<b>Assets</b>		
Cash and cash equivalents	\$ 137,315	<u><u>\$ 143,611</u></u>
<b>Liabilities</b>		
Deposits held for others	<u>                    -</u>	<u><u>\$ 143,611</u></u>
<b>Net assets held in trust</b>	<u><u>\$ 137,315</u></u>	

The accompanying notes are an integral part of these financial statements.

**FREELAND COMMUNITY SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Private Purpose Trust Funds</b>
<b>Additions</b>	
Local sources	\$ 101,275
<b>Deductions</b>	
Awards and other expenses	<u>2,522</u>
Change in net assets	98,753
Net assets, beginning of year	<u>38,562</u>
<b>Net assets, end of year</b>	<u><u>\$ 137,315</u></u>

The accompanying notes are an integral part of these financial statements.

## **NOTES to the FINANCIAL STATEMENTS**

# FREELAND COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

Freeland Community School District (the “District”) has followed the guidelines of the Governmental Accounting Standards Board and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include entities for which the District is considered to be financially accountable.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2006.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental fund is reported as a separate column in the fund financial statements.

#### C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# FREELAND COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of food service and athletic revenue sources.

The *debt service funds* are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The *capital projects funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities and improvements.

The *private purpose trust funds* are used to account for the activity of scholarship funds and donations received for the Miller Empey Room Museum.

The *agency funds* account for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

# FREELAND COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### **D. Assets, liabilities and equity**

#### **1. Deposits and investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value.

#### **2. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

#### **3. Inventory**

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

#### **4. Capital assets**

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Vehicles	8-15
Equipment and other	5-20

# **FREELAND COMMUNITY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

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### **5. *Compensated absences***

It is the District's policy to permit employees to accumulate various earned but unused vacation and sick pay benefits. These are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Benefits are accrued based on various contract stipulations and lengths of service for the various bargaining units. In addition, the District's teacher's bargaining units are entitled to severance payouts upon separation from the District. Payouts not to exceed \$7,500 are available based upon certain retirement criteria for each bargaining unit.

### **6. *Long-term obligations***

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **7. *Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary information**

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.



# FREELAND COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### B. Excess of expenditures over appropriations for budgetary funds

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures that are in excess of the amount appropriated. During the year ended June 30, 2006, the District incurred expenditures in the General Fund, Food Service Fund, and Athletic Fund which were in excess of the amounts appropriated in various activities as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>GENERAL FUND</b>			
Transfers to other districts	\$ 485,276	\$ 495,680	\$ 10,404
<b>FOOD SERVICE FUND</b>			
Salaries	142,071	144,561	2,490
Employee benefits	58,316	58,355	39
<b>ATHLETIC FUND</b>			
Salaries	178,279	182,974	4,695

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

##### Statement of Net Assets

Government-wide Financial Statement Captions:

Cash and cash equivalents	\$ 2,809,293
Investments	1,377,134

##### Statement of Fiduciary Net Assets

Cash and cash equivalents	<u>280,926</u>
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<b>Total</b>	<b><u>\$ 4,467,353</u></b>
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##### Notes to Financial Statements:

Deposits	\$ 4,467,203
Cash on hand	<u>150</u>

<b>Total</b>	<b><u>\$ 4,467,353</u></b>
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##### Investment and deposit risk

*Interest rate risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

# FREELAND COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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*Credit risk.* The District's investment policy does not have specific limits in excess of state law on investment credit risk. The District has no investments for which ratings are required.

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$4,547,560 of the District's bank balance of \$4,647,560 was exposed to credit risk because it was uninsured and uncollateralized.

Michigan law authorizes the District to deposit and invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposits issued by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

### B. Receivables

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>	<u>Amount Not Expected to Be Collected Within One Year</u>
<b>Receivables:</b>				
Intergovernmental	\$ 2,052,137	\$ -	\$ 2,052,137	\$ -
Durant settlement	<u>24,530</u>	<u>50,269</u>	<u>74,799</u>	<u>56,316</u>
<b>Total receivables:</b>	<u><b>\$ 2,076,667</b></u>	<u><b>\$ 50,269</b></u>	<u><b>\$ 2,126,936</b></u>	<u><b>\$ 56,316</b></u>

# FREELAND COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### C. Capital assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$ 150,000	\$ -	\$ (135,500)	\$ 14,500
Capital assets being depreciated:				
Land improvements	42,114	120,500	-	162,614
Buildings	24,662,962	-	-	24,662,962
Vehicles	1,143,237	132,901	(39,598)	1,236,540
Equipment and other	4,354,020	234,866	-	4,588,886
Total capital assets being depreciated	<u>30,202,333</u>	<u>488,267</u>	<u>(39,598)</u>	<u>30,651,002</u>
Less accumulated depreciation				
Land improvements	-	(99,511)	-	(99,511)
Buildings	(6,782,260)	(489,460)	-	(7,271,720)
Vehicles	(790,624)	(81,374)	39,598	(832,400)
Equipment and other	<u>(2,048,132)</u>	<u>(396,156)</u>	<u>-</u>	<u>(2,444,288)</u>
Total accumulated depreciation	<u>(9,621,016)</u>	<u>(1,066,501)</u>	<u>39,598</u>	<u>(10,647,919)</u>
Total capital assets being depreciated, net	<u>20,581,317</u>	<u>(578,234)</u>	<u>-</u>	<u>20,003,083</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 20,731,317</u>	<u>\$ (578,234)</u>	<u>\$ (135,500)</u>	<u>\$ 20,017,583</u>

Included as additions and disposals for the year ended June 30, 2006 is a reclassification of \$135,000 of land to land improvements (\$120,500) and equipment and other (\$14,500).

# FREELAND COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions / programs of the primary government as follows:

**Governmental activities:**

Supporting services - Transportation	\$ 81,374
Food Service	6,960
Depreciation - unallocated	<u>978,167</u>

**Total depreciation expense – governmental activities** **\$ 1,066,501**

**D. Payables**

Accounts payable and accrued liabilities as of June 30, 2006 for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b>Fund Financial Statements:</b>			
Accounts payable	\$ 84,202	\$ 28,624	\$ 112,826
Salaries payable	587,360	3,361	590,721
Retirement payable	95,975	549	96,524
Accrued expenses	<u>304,032</u>	<u>2,670</u>	<u>306,702</u>
	<u><b>\$ 1,071,569</b></u>	<u><b>\$ 35,204</b></u>	<b>1,106,773</b>

**District-wide Financial Statements:**

Accrued interest on long-term debt	<u>94,963</u>
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**Total accounts payable and accrued liabilities** **\$ 1,201,736**

**E. Interfund receivables, payables and transfers**

At June 30, 2006, interfund receivables and payables in the fund financial statements consisted of the following:

	<u>Due From</u>		
<u>Due To</u>	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
General Fund	\$ -	\$ 89,500	\$ 89,500
Nonmajor Funds	<u>26,807</u>	<u>6,723</u>	<u>33,530</u>
Total	<u><b>\$ 26,807</b></u>	<u><b>\$ 96,223</b></u>	<u><b>\$ 123,030</b></u>

# FREELAND COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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The District often reports interfund balances between many of its funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year then ended, interfund transfers consisted of the following:

**Transfer from General Fund to:**

Non-major funds:

Food Services	\$ 17,640
Athletic	277,712
1996 Energy	<u>94,680</u>
	<b><u>\$ 390,032</u></b>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2006, the District transferred funds to subsidize the food services fund and athletics program and to cover the debt service expenditures of the 1996 Energy fund.

**F. Long-term debt**

The following is a summary of bond and compensated absence transactions of the District for the year ended June 30, 2006:

	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b><u>Ending Balance</u></b>	<b><u>Due Within One Year</u></b>
<b>Governmental activities</b>					
General obligation bonds	\$ 13,638,356	\$ -	\$ (673,087)	\$ 12,965,269	\$ 621,218
Compensated absences	<u>220,144</u>	<u>10,681</u>	<u>(9,813)</u>	<u>221,012</u>	<u>7,500</u>
	<b><u>\$ 13,858,500</u></b>	<b><u>\$ 10,681</u></b>	<b><u>\$ (682,900)</u></b>	<b><u>\$ 13,186,281</u></b>	<b><u>\$ 628,718</u></b>

Compensated absences are generally liquidated by the general fund.

# FREELAND COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

Bonds payable at June 30, 2006, are comprised of the following individual issues:

\$122,649 1998 Durant bonds are due in annual installments ranging from \$5,408 to \$28,087 through May 15, 2013; interest rate of 4.76%; annual payments are funded through State revenue sources. \$ 50,269

\$13,735,000 2000 bonds are due in annual installments ranging from \$25,000 to \$1,090,000 through May 1, 2011; interest ranging from 5.0% to 5.25%. 3,090,000

\$9,860,000 2005 bonds are due in annual installments ranging from \$35,000 to \$1,100,000 through May 1, 2021; interest ranging from 3.0% to 4.35%. 9,825,000

\$ 12,965,269

The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service. During the year ended June 30, 2003, the State postponed all Durant debt service requirements. No debt service was required for May 15, 2003, 2004, or 2005. The debt service payments resumed in 2006.

### Advance refunding

On April 19, 2005, the District issued general obligation bonds of \$9,860,000. Proceeds from this bond issue were used to advance refund a portion of the 2000 general obligation bonds issued for school improvements. The refunded bonds mature as scheduled on May 1, 2012 through 2021. The balance of the defeased debt outstanding at June 30, 2006 was \$9,380,000.

Annual debt service requirements to maturity for general obligation bonds are as follows:

<b>Year Ended June 30,</b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2007	\$ 621,218	\$ 570,376	\$ 1,191,594
2008	651,515	540,630	1,192,145
2009	686,826	509,207	1,196,033
2010	727,150	475,242	1,202,392
2011	762,491	439,058	1,201,549
2012-2016	4,301,069	1,669,488	5,970,557
2017-2021	<u>5,215,000</u>	<u>686,820</u>	<u>5,901,820</u>
<b>Totals</b>	<b><u>\$ 12,965,269</u></b>	<b><u>\$ 4,890,821</u></b>	<b><u>\$ 17,856,090</u></b>

# **FREELAND COMMUNITY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

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### **G. Operating Leases**

The District leases four copiers from Xerox. The leases, which expire three years from the date of the lease, are renewable at the end of the lease. Rental expense for the year ended June 30, 2006 was \$59,095. Future minimum lease payments under the terms of the lease are as follows:

<b><u>Year Ending June 30,</u></b>	
2007	\$ 57,761
2008	<u>57,761</u>
	<u>\$ 115,522</u>

### **H. Commitments and Contingencies**

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, management does not believe such disallowances, if any, will be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2006.

## **IV. OTHER INFORMATION**

### **A. Risk management**

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

# **FREELAND COMMUNITY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

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### **B. Property taxes**

Property taxes are assessed as of December 31 each year and attach as an enforceable lien on property as of the following July 1. School property taxes are levied on December 1 each year, based on the previous year's assessment, by Township governments whose boundaries include property within the District, and are due by February 28. Delinquent real taxes are advanced to the District by the Counties involved. Taxes are recorded as revenue in the year levied. Taxes receivable are recorded for property taxes collected within 60 days of year end, if any.

### **C. Defined Benefit Pension Plan**

#### ***Plan Description***

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

#### ***Funding Policy***

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.34% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPERS for the years ended June 30, 2006, 2005, and 2004, were \$1,224,439, \$1,028,852, and \$886,785, respectively, equal to the required contributions for each year.

#### ***Other Post Employment Benefits***

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.



# FREELAND COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

### **D. Sinking Funds**

The Sinking Capital Projects Fund records capital project activities funded with a sinking fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

### **E. School Improvement Fund**

The School Improvement Capital Projects Fund includes capital projects activities funded with bonds issued after May 1, 1994. For this capital project, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

### **F. Prior Period Adjustments**

During the year ended June 30, 2006, prior period adjustments were necessary to reclassify revenue previously recorded in the Debt Service Funds. The effect on the beginning fund balance was as follows:

	2005 Debt Service Fund	Building & Site Bonds Fund
Fund balance, beginning of year, as previously stated	\$ 254,569	\$ 177,313
Prior period adjustments	<u>(11,312)</u>	<u>11,312</u>
Fund balance, beginning of year, as restated	<u>\$ 243,257</u>	<u>\$ 188,625</u>

# FREELAND COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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During the year ended June 30, 2006, prior period adjustments were necessary to reclassify revenue previously recorded in the Capital Project Funds. The effect on the beginning balance was as follows:

	<u>Sinking Fund</u>	<u>School Improvement Fund</u>
Fund balance, beginning of year, as previously stated	\$ 422,036	\$ -
Prior period adjustments	<u>(6,473)</u>	<u>6,473</u>
Fund balance, beginning of year, as restated	<u>\$ 415,563</u>	<u>\$ 6,473</u>

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**COMBINING and INDIVIDUAL FUND  
FINANCIAL STATEMENTS**

# FREELAND COMMUNITY SCHOOL DISTRICT

## GENERAL FUND DETAILS OF REVENUES AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL

**FOR THE YEAR ENDED JUNE 30, 2006**  
**(With Comparative Totals for the Year Ended June 30, 2005)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>2006</u>	<u>2005</u>
<b>REVENUES</b>				
Local Sources:				
Property tax levy	\$ 1,076,467	\$ 1,134,069	\$ 1,060,087	\$ 1,021,950
Transfers from other districts	39,500	57,125	73,012	44,597
Tuition	-	1	1	5
Income from investments	30,000	96,000	108,026	62,861
Other local revenue	71,480	65,125	87,289	119,720
	<u>1,217,447</u>	<u>1,352,320</u>	<u>1,328,415</u>	<u>1,249,133</u>
State Sources:				
State school aid - Section 21	10,707,933	11,006,942	11,115,028	10,599,290
Special education	36,023	36,023	36,023	36,023
State school aid - Durant settlement	-	12,265	12,265	12,265
Other State aid	55,777	72,396	72,203	59,665
	<u>10,799,733</u>	<u>11,127,626</u>	<u>11,235,519</u>	<u>10,707,243</u>
Federal Sources:				
Title one	68,337	67,148	66,813	59,613
Title six	1,315	1,028	709	1,028
Special education	156,090	182,884	188,329	156,091
Other federal sources	50,614	56,163	59,688	73,647
	<u>276,356</u>	<u>307,223</u>	<u>315,539</u>	<u>290,379</u>
<b>TOTAL REVENUES</b>	<u><u>\$ 12,293,536</u></u>	<u><u>\$ 12,787,169</u></u>	<u><u>\$ 12,879,473</u></u>	<u><u>\$ 12,246,755</u></u>

**FREELAND COMMUNITY SCHOOL DISTRICT**  
**GENERAL FUND**  
**DETAILS OF EXPENDITURES AND OTHER FINANCING USES -**  
**BUDGET AND ACTUAL**

**FOR THE YEAR ENDED JUNE 30, 2006**  
**(With Comparative Totals for the Year Ended June 30, 2005)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>2006</u>	<u>2005</u>
<b>EXPENDITURES</b>				
Instruction:				
Basic Programs:				
Elementary:				
Salaries	\$ 2,032,127	\$ 2,054,929	\$ 2,044,110	\$ 1,941,543
Employee benefits	1,117,831	1,094,709	1,088,076	972,737
Purchased services	2,455	1,584	1,084	-
Supplies and materials	109,520	106,645	105,840	105,908
	<u>3,261,933</u>	<u>3,257,867</u>	<u>3,239,110</u>	<u>3,020,188</u>
Middle-High School:				
Salaries	2,037,713	1,994,421	1,991,747	1,942,794
Employee benefits	1,087,004	1,036,866	1,034,311	927,687
Purchased services	21,000	34,500	36,870	19,177
Supplies and materials	80,818	85,456	86,698	106,582
	<u>3,226,535</u>	<u>3,151,243</u>	<u>3,149,626</u>	<u>2,996,240</u>
Total Basic Programs	<u>6,488,468</u>	<u>6,409,110</u>	<u>6,388,736</u>	<u>6,016,428</u>
Added Needs:				
Special Education:				
Salaries	748,059	734,167	731,854	642,799
Employee benefits	353,338	357,884	358,417	280,107
Purchased services	-	-	63	-
Supplies and materials	6,075	8,700	6,825	4,466
	<u>1,107,472</u>	<u>1,100,751</u>	<u>1,097,159</u>	<u>927,372</u>
Compensatory Education:				
Salaries	73,519	48,822	48,822	37,959
Employee benefits	34,017	27,290	27,290	8,120
Supplies and materials	847	-	-	924
	<u>108,383</u>	<u>76,112</u>	<u>76,112</u>	<u>47,003</u>

(Continued)

# FREELAND COMMUNITY SCHOOL DISTRICT

## GENERAL FUND DETAILS OF EXPENDITURES AND OTHER FINANCING USES - BUDGET AND ACTUAL (CONTINUED)

**FOR THE YEAR ENDED JUNE 30, 2006**  
**(With Comparative Totals for the Year Ended June 30, 2005)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>2006</u>	<u>2005</u>
<b>EXPENDITURES (CONTINUED):</b>				
Instruction (Continued):				
Added Needs (Continued):				
Vocational Education:				
Salaries	\$ 78,808	\$ 78,808	\$ 78,531	\$ 76,519
Employee benefits	39,558	37,697	37,649	32,725
Supplies and materials	4,700	4,000	4,349	3,891
	<u>123,066</u>	<u>120,505</u>	<u>120,529</u>	<u>113,135</u>
Total Added Needs	<u>1,338,921</u>	<u>1,297,368</u>	<u>1,293,800</u>	<u>1,087,510</u>
Total Instruction	<u>7,827,389</u>	<u>7,706,478</u>	<u>7,682,536</u>	<u>7,103,938</u>
Supporting Services:				
Pupil Services:				
Salaries	312,299	358,691	355,200	304,795
Employee benefits	149,841	171,312	168,326	130,044
Purchased services	20,817	12,725	14,280	12,362
Supplies and materials	3,862	3,862	2,988	5,212
Other expense	1,130	993	193	91
	<u>487,949</u>	<u>547,583</u>	<u>540,987</u>	<u>452,504</u>
Instructional Staff:				
Salaries	170,210	169,990	167,764	162,026
Employee benefits	74,061	72,373	71,806	63,248
Purchased services	36,561	21,736	23,526	34,327
Supplies and materials	13,506	10,192	7,270	9,990
	<u>294,338</u>	<u>274,291</u>	<u>270,366</u>	<u>269,591</u>
General Administration:				
Salaries	183,306	190,145	189,650	182,197
Employee benefits	78,263	79,073	79,272	72,304
Purchased services	63,000	48,600	46,184	51,164
Supplies and materials	2,500	2,000	2,154	5,541
Other expense	21,700	17,953	13,939	12,945
	<u>348,769</u>	<u>337,771</u>	<u>331,199</u>	<u>324,151</u>

(Continued)

**FREELAND COMMUNITY SCHOOL DISTRICT**

**GENERAL FUND  
DETAILS OF EXPENDITURES AND OTHER FINANCING USES -  
BUDGET AND ACTUAL (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2006  
(With Comparative Totals for the Year Ended June 30, 2005)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>2006</u>	<u>2005</u>
EXPENDITURES (CONTINUED):				
Supporting Services (Continued):				
School Administration:				
Salaries	\$ 492,634	\$ 507,366	\$ 501,770	\$ 472,865
Employee benefits	211,430	206,824	207,482	178,607
Purchased services	5,650	3,677	3,064	4,693
Supplies and materials	5,000	6,677	6,273	4,377
Other expense	2,500	1,166	1,701	2,961
	<u>717,214</u>	<u>725,710</u>	<u>720,290</u>	<u>663,503</u>
Business Services:				
Fiscal Services:				
Salaries	219,945	191,186	182,662	223,049
Employee benefits	108,720	100,709	104,565	106,307
Purchased services	16,670	15,753	15,334	16,998
Supplies and materials	53,500	53,765	54,350	40,894
Other expense	25,600	31,543	39,142	18,362
	<u>424,435</u>	<u>392,956</u>	<u>396,053</u>	<u>405,610</u>
Other Business Services:				
Purchased services	12,754	11,716	10,161	9,165
	<u>437,189</u>	<u>404,672</u>	<u>406,214</u>	<u>414,775</u>
Total Business Services				
Operation and Maintenance:				
Salaries	515,969	512,829	517,058	503,691
Employee benefits	334,762	329,981	328,140	294,281
Purchased services	147,531	151,435	149,786	138,475
Supplies and materials	384,000	459,600	464,033	369,174
Other expense	190	245	245	470
	<u>1,382,452</u>	<u>1,454,090</u>	<u>1,459,262</u>	<u>1,306,091</u>
Transportation Services:				
Salaries	334,702	331,768	320,136	326,506
Employee benefits	116,706	115,130	110,318	98,185
Purchased services	17,752	24,133	23,124	13,477
Supplies and materials	82,700	138,850	133,636	75,648
Other expense	750	100	100	150
	<u>552,610</u>	<u>609,981</u>	<u>587,314</u>	<u>513,966</u>
Central Services:				
Salaries	54,237	54,774	54,774	53,700
Employee benefits	22,717	21,849	21,603	19,915
Other expense	1,300	1,300	170	625
	<u>78,254</u>	<u>77,923</u>	<u>76,547</u>	<u>74,240</u>

(Continued)

# FREELAND COMMUNITY SCHOOL DISTRICT

## GENERAL FUND DETAILS OF EXPENDITURES AND OTHER FINANCING USES - BUDGET AND ACTUAL (CONTINUED)

**FOR THE YEAR ENDED JUNE 30, 2006**  
**(With Comparative Totals for the Year Ended June 30, 2005)**

	Original Budget	Final Budget	2006	2005
EXPENDITURES (CONTINUED):				
Supporting Services (Continued):				
Other Supporting Services:				
Salaries	\$ 38,152	\$ 38,202	\$ 39,531	\$ 43,770
Employee benefits	9,191	9,092	9,390	9,782
Purchased services	1,250	1,250	-	953
Supplies and materials	400	400	-	630
	<u>48,993</u>	<u>48,944</u>	<u>48,921</u>	<u>55,135</u>
 Total Supporting Services	 <u>4,347,768</u>	 <u>4,480,965</u>	 <u>4,441,100</u>	 <u>4,073,956</u>
 Community Services:				
Salaries	4,000	4,870	9,627	4,028
Employee benefits	964	1,074	2,198	901
Purchased services	16,500	16,900	11,196	17,335
Supplies and materials	2,150	1,750	666	1,444
	<u>23,614</u>	<u>24,594</u>	<u>23,687</u>	<u>23,708</u>
 Total Community Services	 <u>23,614</u>	 <u>24,594</u>	 <u>23,687</u>	 <u>23,708</u>
 Transfers to other districts	 <u>453,361</u>	 <u>485,276</u>	 <u>495,680</u>	 <u>425,332</u>
 Capital Outlay:				
Instruction:				
Basic Programs:				
Elementary	29,556	29,536	28,194	23,910
Middle-High School	20,880	29,568	30,901	15,970
 Supporting Services:				
School administration	2,000	-	-	3,059
Fiscal Services	100,000	173,700	173,796	38,383
Operation and Maintenance	45,000	35,000	25,590	47,995
Transportation Services	64,270	134,401	133,970	64,270
	<u>261,706</u>	<u>402,205</u>	<u>392,451</u>	<u>193,587</u>
 Total Capital Outlay	 <u>261,706</u>	 <u>402,205</u>	 <u>392,451</u>	 <u>193,587</u>
 <b>TOTAL EXPENDITURES</b>	 <u>12,913,838</u>	 <u>13,099,518</u>	 <u>13,035,454</u>	 <u>11,820,521</u>
 <b>OUTGOING TRANSFERS AND OTHER TRANSACTIONS</b>				
 Transfers to other funds	 <u>463,923</u>	 <u>411,228</u>	 <u>390,032</u>	 <u>294,441</u>
 <b>TOTAL EXPENDITURES AND OTHER USES</b>	 <u><u>\$ 13,377,761</u></u>	 <u><u>\$ 13,510,746</u></u>	 <u><u>\$ 13,425,486</u></u>	 <u><u>\$ 12,114,962</u></u>



**FREELAND COMMUNITY SCHOOL DISTRICT**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS**

**JUNE 30, 2006**

	<u>Special Revenue</u>		<u>Debt Service</u>	
	<u>Food Service</u>	<u>Athletic</u>	<u>1993</u>	<u>1996 Energy</u>
<b><u>ASSETS</u></b>				
Cash	\$ 57,312	\$ 66,150	\$ 10,997	\$ -
Due from other funds	-	-	-	-
Due from other governmental units	-	-	-	-
Inventory	7,134	-	-	-
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 64,446</u></b>	<b><u>\$ 66,150</u></b>	<b><u>\$ 10,997</u></b>	<b><u>\$ -</u></b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	6,072	706	-	-
Salaries payable	3,200	161	-	-
Retirement payable	523	26	-	-
Accrued expenses	2,657	13	-	-
Deferred revenue	6,974	-	-	-
<b>TOTAL LIABILITIES</b>	<b>19,426</b>	<b>906</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES</b>				
Reserved for inventory	7,134	-	-	-
Reserved for debt retirement	-	-	10,997	-
Reserved for capital projects	-	-	-	-
Unreserved	37,886	65,244	-	-
<b>TOTAL FUND BALANCES</b>	<b>45,020</b>	<b>65,244</b>	<b>10,997</b>	<b>-</b>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 64,446</u></b>	<b><u>\$ 66,150</u></b>	<b><u>\$ 10,997</u></b>	<b><u>\$ -</u></b>

			Capital Projects		Totals
1998 Durant	Debt Service	2005	Sinking Fund	School	
	Building & Site Bonds			Improvement Fund	
\$ -	\$ 219,556	\$ 271,910	\$ 508,979	\$ 585	\$ 1,135,489
-	28,926	-	-	4,604	33,530
50,269	-	-	-	-	50,269
-	-	-	-	-	7,134
<u>\$ 50,269</u>	<u>\$ 248,482</u>	<u>\$ 271,910</u>	<u>\$ 508,979</u>	<u>\$ 5,189</u>	<u>\$ 1,226,422</u>

\$ -	\$ -	\$ -	\$ 28,624	\$ -	\$ 28,624
-	34,593	22,215	28,155	4,482	96,223
-	-	-	-	-	3,361
-	-	-	-	-	549
-	-	-	-	-	2,670
50,269	-	-	-	-	57,243
<u>50,269</u>	<u>34,593</u>	<u>22,215</u>	<u>56,779</u>	<u>4,482</u>	<u>188,670</u>
-	-	-	-	-	7,134
-	213,889	249,695	-	-	474,581
-	-	-	452,200	707	452,907
-	-	-	-	-	103,130
<u>-</u>	<u>213,889</u>	<u>249,695</u>	<u>452,200</u>	<u>707</u>	<u>1,037,752</u>
<u>\$ 50,269</u>	<u>\$ 248,482</u>	<u>\$ 271,910</u>	<u>\$ 508,979</u>	<u>\$ 5,189</u>	<u>\$ 1,226,422</u>

**FREELAND COMMUNITY SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Special Revenue</b>		<b>Debt Service</b>	
	<b>Food Service</b>	<b>Athletic</b>	<b>1993</b>	<b>1996 Energy</b>
<b>REVENUES</b>				
Local Sources:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Food sales	296,378	-	-	-
Athletic admissions	-	82,225	-	-
Athletic - fund raising	-	106,136	-	-
Hockey player fees	-	9,674	-	-
Donations	-	18,429	-	-
Interest	147	353	44	-
Miscellaneous	-	2,697	-	-
State Sources	18,448	-	-	-
Federal Sources	87,431	-	-	-
<b>TOTAL REVENUES</b>	<b>402,404</b>	<b>219,514</b>	<b>44</b>	<b>-</b>
<b>EXPENDITURES</b>				
Food services	209,337	-	-	-
Athletic activities	-	210,821	-	-
Salaries	144,561	182,974	-	-
Employee benefits	58,355	59,732	-	-
Debt service:				
Principal	-	-	-	90,000
Interest	-	-	-	2,502
Fiscal charges	-	-	-	2,178
Capital outlay	14,098	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>426,351</b>	<b>453,527</b>	<b>-</b>	<b>94,680</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(23,947)</b>	<b>(234,013)</b>	<b>44</b>	<b>(94,680)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from General Fund	17,640	277,712	-	94,680
<b>NET CHANGE IN FUND BALANCES</b>	<b>(6,307)</b>	<b>43,699</b>	<b>44</b>	<b>-</b>
FUND BALANCES, BEGINNING OF YEAR, AS RESTATED	51,327	21,545	10,953	-
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 45,020</b>	<b>\$ 65,244</b>	<b>\$ 10,997</b>	<b>\$ -</b>

1998 Durant	Debt Service		Capital Projects		Totals
	Building & Site Bonds	2005	Sinking Fund	School Improvement Fund	
\$ -	\$ 718,302	\$ 459,245	\$ 276,399	\$ -	\$ 1,453,946
-	-	-	-	-	296,378
-	-	-	-	-	82,225
-	-	-	-	-	106,136
-	-	-	-	-	9,674
-	-	-	-	-	18,429
-	9,758	8,234	19,146	1,650	39,332
-	-	-	-	-	2,697
40,644	-	-	-	-	59,092
-	-	-	-	-	87,431
40,644	728,060	467,479	295,545	1,650	2,155,340
-	-	-	-	-	209,337
-	-	-	-	-	210,821
-	-	-	-	-	327,535
-	-	-	-	-	118,087
28,087	520,000	35,000	-	-	673,087
12,557	182,796	425,816	-	-	623,671
-	-	225	-	-	2,403
-	-	-	258,908	7,416	280,422
40,644	702,796	461,041	258,908	7,416	2,445,363
-	25,264	6,438	36,637	(5,766)	(290,023)
-	-	-	-	-	390,032
-	25,264	6,438	36,637	(5,766)	100,009
-	188,625	243,257	415,563	6,473	937,743
\$ -	\$ 213,889	\$ 249,695	\$ 452,200	\$ 707	\$ 1,037,752

**FREELAND COMMUNITY SCHOOL DISTRICT**

**FOOD SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL**

**FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>REVENUES</b>				
Local Sources:				
Food sales	\$ 244,000	\$ 278,600	\$ 296,378	\$ 17,778
Interest	200	175	147	(28)
State Sources	14,700	18,000	18,448	448
Federal Sources	76,100	86,100	87,431	1,331
<b>TOTAL REVENUES</b>	<b>335,000</b>	<b>382,875</b>	<b>402,404</b>	<b>19,529</b>
<b>EXPENDITURES</b>				
Food services	211,175	224,845	209,337	(15,508)
Salaries	153,043	142,071	144,561	2,490
Employee benefits	59,619	58,316	58,355	39
Capital outlay	5,000	18,500	14,098	(4,402)
<b>TOTAL EXPENDITURES</b>	<b>428,837</b>	<b>443,732</b>	<b>426,351</b>	<b>(17,381)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(93,837)</b>	<b>(60,857)</b>	<b>(23,947)</b>	<b>36,910</b>
<b>OTHER FINANCING SOURCES</b>				
Transfer from General Fund	93,837	60,857	17,640	(43,217)
<b>NET CHANGES IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>(6,307)</b>	<b>(6,307)</b>
FUND BALANCE, BEGINNING OF YEAR	51,327	51,327	51,327	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 51,327</b>	<b>\$ 51,327</b>	<b>\$ 45,020</b>	<b>\$ (6,307)</b>

**FREELAND COMMUNITY SCHOOL DISTRICT**

**ATHLETIC FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL**

**FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>REVENUES</b>				
Local Sources:				
Athletic admissions	\$ 50,000	\$ 81,650	\$ 82,225	\$ 575
Athletic - fund raising	45,000	96,058	106,136	10,078
Hockey player fees	-	9,674	9,674	-
Donations	10,000	8,000	18,429	10,429
Interest	200	300	353	53
Miscellaneous	3,600	2,200	2,697	497
<b>TOTAL REVENUES</b>	<b>108,800</b>	<b>197,882</b>	<b>219,514</b>	<b>21,632</b>
<b>EXPENDITURES</b>				
Athletic activities	154,050	217,213	210,821	(6,392)
Salaries	171,991	178,279	182,974	4,695
Employee benefits	60,343	60,421	59,732	(689)
<b>TOTAL EXPENDITURES</b>	<b>386,384</b>	<b>455,913</b>	<b>453,527</b>	<b>(2,386)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(277,584)</b>	<b>(258,031)</b>	<b>(234,013)</b>	<b>24,018</b>
<b>OTHER FINANCING SOURCES</b>				
Transfer from General Fund	277,584	258,031	277,712	19,681
<b>NET CHANGES IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>43,699</b>	<b>43,699</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>21,545</b>	<b>21,545</b>	<b>21,545</b>	<b>-</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 21,545</b>	<b>\$ 21,545</b>	<b>\$ 65,244</b>	<b>\$ 43,699</b>

**FREELAND COMMUNITY SCHOOL DISTRICT**

**PRIVATE PURPOSE TRUST FUNDS  
COMBINING STATEMENT OF NET ASSETS**

**JUNE 30, 2006**

	<b>Cam Bowman Scholarship Fund</b>	<b>Thomas P. Orr Scholarship Fund</b>	<b>Sally A. George Scholarship Fund</b>	<b>Miller Empey Room Museum</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	<u>\$ 6,068</u>	<u>\$ 23,660</u>	<u>\$ 7,537</u>	<u>\$ 100,050</u>	<u>\$ 137,315</u>
<b>Net assets</b>					
Held in trust for specific programs	<u>\$ 6,068</u>	<u>\$ 23,660</u>	<u>\$ 7,537</u>	<u>\$ 100,050</u>	<u>\$ 137,315</u>

**FREELAND COMMUNITY SCHOOL DISTRICT**

**PRIVATE PURPOSE TRUST FUNDS**

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

**FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Cam Bowman Scholarship Fund</b>	<b>Thomas P. Orr Scholarship Fund</b>	<b>Sally A. George Scholarship Fund</b>	<b>Miller Empey Room Museum</b>	<b>Total</b>
<b>Additions</b>					
Local sources	\$ 824	\$ 97	\$ 282	\$ 100,072	\$ 101,275
<b>Deductions</b>					
Awards and other expenses	500	1,000	1,000	22	2,522
Change in net assets	324	(903)	(718)	100,050	98,753
Net assets, beginning of year	5,744	24,563	8,255	-	38,562
<b>Net assets, end of year</b>	<b>\$ 6,068</b>	<b>\$ 23,660</b>	<b>\$ 7,537</b>	<b>\$ 100,050</b>	<b>\$ 137,315</b>



**FREELAND COMMUNITY SCHOOL DISTRICT**

**AGENCY FUNDS**

**COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**

**JUNE 30, 2006**

**(With Comparative Totals for the Year Ended June 30, 2005)**

		<b>Middle-</b>	<b>Totals</b>	
	<b><u>ASSETS</u></b>	<b><u>Elementary</u></b>	<b><u>High</u></b>	
			<b><u>2006</u></b>	<b><u>2005</u></b>
Cash		\$ 92,877	\$ 50,734	\$ 143,611
		\$ 92,877	\$ 50,734	\$ 128,456
	<b><u>LIABILITIES</u></b>			
Deposits held for others		\$ 92,877	\$ 50,734	\$ 143,611
		\$ 92,877	\$ 50,734	\$ 128,456

**FREELAND COMMUNITY SCHOOL DISTRICT**

**AGENCY FUNDS**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**

**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Balances July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2006</u>
<b><u>ELEMENTARY SCHOOL</u></b>				
Cash	\$ 90,299	\$ 134,914	\$ 132,336	\$ 92,877
Deposits held for others	\$ 90,299	\$ 134,914	\$ 132,336	\$ 92,877
<b><u>MIDDLE-HIGH SCHOOL</u></b>				
Cash	\$ 38,157	\$ 135,474	\$ 122,897	\$ 50,734
Deposits held for others	\$ 38,157	\$ 135,474	\$ 122,897	\$ 50,734
<b><u>TOTALS</u></b>				
Cash	\$ 128,456	\$ 270,388	\$ 255,233	\$ 143,611
Deposits held for others	\$ 128,456	\$ 270,388	\$ 255,233	\$ 143,611

## **SUPPLEMENTARY INFORMATION**

**FREELAND COMMUNITY SCHOOL DISTRICT**  
**SCHEDULE OF OUTSTANDING BONDED INDEBTEDNESS**

**JUNE 30, 2006**

Date of Issue - 1998

Original amount of issue - \$122,649

Purpose of issue - To finance improvements within the buildings of the District.

<u>Interest Rate</u>	<u>Fiscal Year</u>	<u>Annual Interest Payments May 15</u>	<u>Annual Maturity May 15</u>	<u>Total Fiscal Year Requirements</u>
4.76 %	2006-07	\$ 2,393	\$ 6,218	\$ 8,611
4.76 %	2007-08	2,097	6,515	8,612
4.76 %	2008-09	1,787	6,826	8,613
4.76 %	2009-10	1,462	7,150	8,612
4.76 %	2010-11	1,122	7,491	8,613
4.76 %	2011-12	765	7,847	8,612
4.76 %	2012-13	391	8,222	8,613
		<u>\$ 10,017</u>	<u>\$ 50,269</u>	<u>\$ 60,286</u>

**FREELAND COMMUNITY SCHOOL DISTRICT**

**SCHEDULE OF OUTSTANDING BONDED INDEBTEDNESS**  
**(CONTINUED)**

**JUNE 30, 2006**

Date of Issue - 2000\*

Original amount of issue - \$13,735,000\*

Purpose of issue - To finance additions to the Middle-High School, improvements to all school buildings, educational technology improvements, and improvements to the playgrounds and sites.

\* Debt was refinanced April 19, 2005. The total non-refunded portion to be paid by the District was \$4,005,000. The total amount refunded was \$9,380,000.

<b>Interest Rate</b>	<b>Fiscal Year</b>	<b>Semi-Annual Interest Payments</b>		<b>Annual Maturity</b>	<b>Total Fiscal Year Requirements</b>
		<b>November 1</b>	<b>May 1</b>	<b>May 1</b>	
5.00 %	2006-07	\$ 78,398	\$ 78,398	\$ 550,000	\$ 706,796
5.00 %	2007-08	64,648	64,648	580,000	709,296
5.10 %	2008-09	50,148	50,148	615,000	715,296
5.125 %	2009-10	34,466	34,466	655,000	723,932
5.125 %	2010-11	17,681	17,681	690,000	725,362
		<u>\$ 245,341</u>	<u>\$ 245,341</u>	<u>\$ 3,090,000</u>	<u>\$ 3,580,682</u>

**FREELAND COMMUNITY SCHOOL DISTRICT**  
**SCHEDULE OF OUTSTANDING BONDED INDEBTEDNESS**  
**(CONTINUED)**

**JUNE 30, 2006**

Date of Issue - 2005

Original amount of issue - \$9,860,000

Purpose of issue - To refund a portion of the 2000 general obligation bonds.

<b>Interest Rate</b>	<b>Fiscal Year</b>	<b>Semi-Annual Interest Payments</b>		<b>Annual Maturity</b>	<b>Total Fiscal Year Requirements</b>
		<b>November 1</b>	<b>May 1</b>	<b>May 1</b>	
3.00 %	2006-07	\$ 205,593	\$ 205,593	\$ 65,000	\$ 476,186
3.25 %	2007-08	204,618	204,618	65,000	474,236
3.50 %	2008-09	203,562	203,562	65,000	472,124
3.50 %	2009-10	202,424	202,424	65,000	469,848
3.50 %	2010-11	201,287	201,287	65,000	467,574
4.00 %	2011-12	200,149	200,149	790,000	1,190,298
4.00 %	2012-13	184,349	184,349	820,000	1,188,698
4.125 %	2013-14	167,949	167,949	855,000	1,190,898
4.25 %	2014-15	150,315	150,315	890,000	1,190,630
4.25 %	2015-16	131,403	131,403	930,000	1,192,806
4.25 %	2016-17	111,640	111,640	970,000	1,193,280
4.25 %	2017-18	91,028	91,028	1,010,000	1,192,056
4.25 %	2018-2019	69,565	69,565	1,050,000	1,189,130
4.30 %	2019-2020	47,253	47,253	1,085,000	1,179,506
4.35 %	2020-21	23,925	23,925	1,100,000	1,147,850
		<u>\$ 2,195,060</u>	<u>\$ 2,195,060</u>	<u>\$ 9,825,000</u>	<u>\$ 14,215,120</u>

## **INTERNAL CONTROL and COMPLIANCE**



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

July 19, 2006

To the Board of Education  
Freeland Community School District  
Freeland, Michigan

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the ***Freeland Community School District***, as of and for the year ended June 30, 2006, and have issued our report thereon dated July 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered ***Freeland Community School District's*** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether ***Freeland Community School District's*** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, School Board of Directors, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.